

Message Text

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C O N F I D E N T I A L TOKYO 2941

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: FEDERAL RESERVE BILL ON FOREIGN BANKS

REF: A. STATE 35382; B. STATE A-9082, 12/11/74;

C. SEOUL 2470 LIMDIS, 4/18/74

1. SUBJECT WAS DISCUSSED WITH MOF OFFICIALS WHO HAVE HAD SUFFICIENT TIME TO STUDY CONTENTS OF BILL SO AS TO GIVE QTE INFORMED UNQTE REACTION AND WHO CONSIDER THAT FINANCE MINISTRY HAS VIRTUALLY SOLE JURISDICTION IN THIS MATTER. COMMENTS FROM HIYOSHI, DEPDIR, COMMERCIAL BANKS DIV, AND OKITSU, DEPDIR, LEGAL SEC, INFIN BUR, ARE PRESENTED IN THE SAME ORDER AS PREVIOUS MOF VIEWS CONVEYED TO FRB, SF, PRES JOHN BALLE, AND REPORTED IN REF C. JAPANESE BANKERS WITH WHOM FINATT HAS DISCUSSED SUBJECT APPEAR RELAXED AND HAVE NOT EXPRESSED CONCERN OVER FC BILL. SUBJECT HAS NOT BEEN RAISED WITH FOREIGN MINISTRY WHICH HAS JURISDICTION OVER FCN TREATY.

2. OFFICIALS WERE PLEASED TO PRESENT MOF VIEWS REGARDING PROSPECTIVE TREATMENT JAPANESE BANKS IN U.S. MOF VIEWS AND COMMENTS REGARDING CONTENTS OF BILL REMAIN ESSENTIALLY UNCHANGED FROM THOSE A YEAR AGO (REF CLM FINATT WAS UNABLE
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TO ANSWER QUESTION OF HOW U.S. AND EUROPEAN BANKERS HAVE

REACTED TO BILL.

3. NONDISCRIMINATION: MOF AGREES WITH AND SUPPORTS THIS APPROACH TO FOREIGN BANKING IN THE U.S. AS EMBODIED IN FR BILL.

4. MULTI-STATE DOMESTIC BANKING: OFFICIALS URGED USG TO TAKE EARLY INITIATIVES IN QTE LIBERALIZING UNQTE BANKING PRACTICES IN U.S. COMPARED WITH THOSE IN OTHER COUNTRIES AND HOPED THAT IN FUTURE MULTI-STATE BANKING WOULD BE PERMITTED IN U.S. OFFICIALS SPECIFICALLY REQUESTED FINATT CONFIRMATION OF THEIR UNDERSTANDING, NAMELY THAT BILL PROVIDES FOR COMPTROLLER AUTHORIZATION FOR FOREIGN BRANCHES IN STATES WHERE FOREIGN BRANCHES OR BANKS ARE CURRENTLY PROHIBITED BY STATE LAW. OFFICIALS ARE AWARE OF CERTAIN PROVISOS IN LAW BUT WERE ANXIOUS TO KNOW FULL DETAILS OF SPECIFIC REQUIREMENTS SO THAT APPLICATIONS CAN RECEIVE APPROVAL UNDER THIS SEC OF THE BILL. FINATT ACKNOWLEDGED SIMILAR UNDERSTANDING OF SEC 18 OF BILL BUT SUGGESTED THAT, SINCE NEW LAW HAS NOT YET BEEN PASSED, DETAIL REQUIREMENTS FOR APPLICATIONS AND APPROVAL PROBABLY NOT FINALIZED BY TREASURY.

5. BANK HOLDING COMPANY PROVISIONS: OFFICIALS MADE SPECIAL POINT TO EMPHASIZE MOF CONCERN OVER THESE PROVISIONS. THEY FORESAW POSSIBILITY THAT COMPLICATIONS THAT MAY ARISE BECAUSE OF DIFFERENCES BETWEEN U.S. AND JAPANESE RESTRICTIONS ON STOCK OWNERSHIP BY BANKS. OFFICIALS SPECIFICALLY REFERRED TO RECENT FRB REQUEST TO MITSUBISHI BANK, CAL (REPORTED TOKYO 2059) THAT IT REDUCE ITS STOCK HOLDINGS IN YAMAICHI SECURITIES CO AS AN EXAMPLE OF THEIR CONCERN. THEY WONDERED HOW FAR FRB WAS LIKELY TO GO IN APPLYING HOLDING COMPANY PROVISIONS TO JAPANESE BANKS, WHOSE PARENTS HAVE VERY LARGE EQUITY INVESTMENT AND ARE PERMITTED, UNDER JAPANESE LAW, TO HOLD UP TO 10 PERCENT OF OUTSTANDING STOCK.

6. COMPULSORY FRB AND FDIC MEMBERSHIP: MOF OFFICIALS' FEARS REGARDING DISCRIMINATORY TREATMENT OF FOREIGN BANKS GREATLY EASED AND THEY SEEMED SATISFIED AFTER FINATT CITED BACKGROUND INFO CONTAINED IN REFTELS A AND B. OFFICIALS CONFIDENTIAL

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FREELY ACKNOWLEDGED U.S. DESIRE TO FOLLOW PRINCIPLE OF PLACING FOREIGN BANKS UNDER NATIONAL CONTROL (AS IN JAPAN). AT NO TIME DID OFFICIALS EVER REFER TO RIGHTS UNDER FCN TREATY. OFFICIALS DID, HOWEVER, WISH TO LEARN ALL OF THE VARIOS FRB AND FDIC REGULATIONS TO WHICH JAPANESE BANKS WILL BE SUBJECT. OFFICIALS WERE TOLD THESE NOT AVAILABLE IN EMBASSY BUT FINATT WOULD PROVIDE SAMPLES OF FRB REGS AVAILABLE IN OFFICE FILES (REGS A AND K).

7. EDGE ACT BANKS: OFFICIALS HAD SEVERAL QUESTIONS REGARDING TYPES OF BUSINESS PERMITTED BY SUCH BANKS AND METHOD OF REGULATION. SPECIFICALLY, COULD AGENCY BANKS BE CONVERTED INTO EDGE ACT BANKS AND CONTINUE TO PERFORM ALL THEIR PRESENT FUNCTIONS AND WHAT WOULD BE THE PROCEDURE FOR CONVERTING AN AGENCY BANK INTO AN EDGE ACT BANK?

8. GRANDFATHERING: MOF OFFICIALS WERE ESPECIALLY PLEASED THAT GRANDFATHERING HAD BEEN INCLUDED AS ORIGINALLY SUGGESTED IN PROPOSAL OF BILL. THEY MENTIONED THAT SEVERAL JAPANESE BANKS HAD BEEN ESTABLISHED IN U.S. AFTER 12/3/74, THE DATE THE FR BILL HAD ORIGINALLY BEEN INTRODUCED, AND ASKED WHETHER THOSE BANKS WOULD ALSO BE GRANDFATHERED SINCE THE FR BILL HAD BEEN REINTRODUCED IN THE NEW 1975 CONGRESS. FINATT REPLIED THAT IT DEPENDS ON PROVISIONS OF FINAL BILL WHICH WILL BE UP TO CONGRESS.

9. COMMENTS: IN TYPICAL JAPANESE FASHION LEGALLY TRAINED MOF OFFICIALS APPEAR TO HAVE GOOD GRASP OF FR BILL. THE RELAXED ATTITUDE OF OFFICIALS DURING MEETING IS CONSIDERED BY FINATT AS SIGN THAT UNDER QTE NEW RULES UNQTE JAPANESE BANKS CAN EXPECT TO CONTINUE THEIR PENETRATION OF U.S. MARKET THROUGH ONE FORM OR ANOTHER. MOF MAY VERY WELL SEE ADVANTAGES TO JAPANESE BANKS IN NEW BILL, E.G. ABILITY OF COMPTROLLER TO APPROVE JAPANESE BRANCHES IN STATES WHICH CURRENTLY PROHIBIT FOREIGN BANKING. NO DOUBT, MOF REALIZES THAT NOW JAPANESE BANKS COULD PERHAPS BE ESTABLISHED IN ALL OF 50 STATES. SINCE NONE OF THE 16 REGIONAL JAPANESE BANKS AS YET HAS BRANCHES IN THE U.S. THERE ARE OPPORTUNITIES FOR ADDITIONAL JAPANESE BRANCHING IN THE U.S. UNDER THE BILL.
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OFFICIALS ARE WELL AWARE USG COULD IMPOSE CONDITIONS TO BRANCHING UNDER SEC 18 OF BILL AND SEEM ANXIOUS TO KNOW WHAT, IF ANY, QTE QUID PRO QUO UNQTE USG MIGHT WANT. APPARENTLY OFFICIALS HOPE EDGE ACT BANK ROUTINE MAY GIVE JAPANESE BANKERS NOT ONLY THE SAME PRIVILEGES AS PRESENT AGENCY STATUS BUT HAVE THE ADVANTAGE OF GREATER GEOGRAPHIC FLEXIBILITY UNDER NATIONAL RATHER THAN STATE CHARTER. HOWEVER, MOF STILL SOMEWHAT PERPLEXED BY MULTI-AGENCY (FRB, FDIC, COMPTROLLER, STATES) JURISDICTION AND CONTROL OVER BANKING IN U.S.
HODGSON

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